

CHAPTER 11

LIABILITIES

1. INTRODUCTION.

- a. **Applicability.** The applicability of this chapter is specified in Chapter 1, “Accounting Overview.”
- b. **Background/Authorities.** This chapter prescribes the policies and general procedures for recording and reporting liabilities consistent with the Statement of Federal Financial Accounting Standards (SFFAS), or General Accounting Office (GAO) title 2 standards in the absence of SFFAS. Liabilities include accounts payable; accrued expenses; interest payable; accrued payroll and benefits; accrued leave; unearned revenues, including advances; deposit funds; debt issued under borrowing authority; bonds; loan guarantees and loan commitments; contingent liabilities; lease liabilities; and future funded liabilities.
- c. **Policy/Objectives.**
 - (1) All liabilities shall be measured and recorded as accurately as possible, given the circumstances under which the liability was created.
 - (2) Liabilities recorded in financial statements shall reflect both invoices received, and accruals for any costs incurred, or assets received for which progress billings, grant reimbursement requests, and other billings have not yet been received. Liabilities shall be recorded and/or footnoted irrespective of whether funds are available or authorized for payment.
 - (3) Contingent liabilities shall be recorded as incurred liabilities if the loss is probable and the amount can be reasonably estimated. Loss contingencies that are judged to have a reasonably possible chance of occurring or that cannot be estimated should be included as a footnote on the financial statements. Do not disclose in the financial statements the amount of any potential liability if such disclosure would compromise the Government’s position in court or in negotiating a settlement.
 - (4) Separate accounts are established for major categories of liabilities to facilitate their clear and full disclosure on financial statements. Accounts will be classified as either current or long term and will differentiate between Federal and non-Federal liabilities. Accounts will provide for the classifications contained in the Standard General Ledger Chart of Accounts and Related Codes.
 - (5) Maintain accounts on an accrual basis. Costs and revenues shall be identified with and recorded in the period in which they are incurred, even if receipt of the revenue or payment for the expenditure occurs in a subsequent accounting period. A balance should be maintained between the effort required to measure accrued costs precisely and the added value of such precision.
 - (6) Record unearned revenues, which are advances and prepayments received, as liabilities. When payment is earned, that is, goods or services have been delivered

or contract terms have been met, the appropriate amount of revenues is recognized with a corresponding reduction in the liability.

- (7) Unused annual leave is included in accrued liabilities at the end of the fiscal year. Annual leave for DOE employees is an unfunded liability accrued on a nonfund basis. (Refer to paragraph 2b(3)(a).)

2. TYPES OF LIABILITIES.

- a. **Accounts Payable.** Amounts owed to others for goods and services received and assets acquired, for which a bill has been received or approved. Any percentage of amounts due to contractors that DOE retains as a guarantee of performance may remain in a special account established for retention. Support the accounts payable control account(s) with unpaid invoice files, subsidiary ledgers, or other forms of subsidiary records. The accounting records must distinguish between accounts payable to non-Federal entities and accounts payable to other Federal agencies.
- b. **Accrued Expenses.** Amounts owed by the Department for items or services received, expenses incurred, assets acquired, or construction performed, for which a bill (e.g., progress billings, grant reimbursement requests, and other billings) has not been received or approved.
 - (1) **Accrued Interest Expenses.** These expenses typically arise from interest due on long-term debts, capital lease obligations, and late payment of invoices. The accounting records must distinguish between interest payable to non-Federal entities and interest payable to other Federal agencies.
 - (2) **Accrued Payroll and Benefits.** Accrue the unpaid wages and benefits that employees have earned at the close of each accounting period.
 - (3) **Accrued Leave.**
 - (a) **Annual Leave.** Record the liability for annual leave at the wage at which the leave is earned and adjusted each year to reflect pay increases, unused leave balances, and statutory limitations to leave amounts, and to provide for employees transferred in or out during the year. Accrued leave for DOE employees will be recorded as a nonfund liability.
 - (b) **Compensatory Leave.** Treat compensatory leave the same as annual leave for accrual purposes.
 - (c) **Sick Leave.** Accrue sick leave for contractor employees if a contractual requirement exists for employees to be paid for unused sick leave. A liability for DOE employees will not be accrued since no payment is made for unused sick leave.
 - (4) **Exceptions.** The following are minimum requirements for accruing costs related to the indicated procurement instruments. While the minimum requirements are intended to provide a proper balance between materiality and the high volume of cost accrual transactions, yearend accruals should be expanded to ensure that

the yearend financial statements present fairly the aggregate cost accruals for the Department. Accrual policies must meet or exceed the minimum requirements.

- (a) **Non-Integrated Contracts and Purchase Orders.** Accrue non-invoiced costs monthly if the uncosted balance is greater than \$1 million.
 - (b) **Financial Assistance Instruments (Grants and Cooperative Agreements).** For financial assistance instruments that are \$200,000 or less, cost the entire amount at time of obligation; otherwise, generally accrue monthly on a straight-line basis.
- c. **Unearned Revenues.** Unearned revenues represent advance payments from others to cover the cost of services, materials, or other assets that DOE will furnish in the future. The accounting records must distinguish between advances received from other Federal agencies and advances received from non-Federal entities. For additional guidance regarding advances for reimbursable work and cosponsored projects, see Chapter 13, "Reimbursable Work, Revenues, and Other Collections." Costs incurred in the performance of work for Federal and non-Federal entities shall be accumulated and charged against the advances.
- d. **Funds Held for Others.** A liability shall be established whenever DOE has physical possession or responsibility for non-Government personal property or cash. This includes certain funds that belong to others, such as payroll deductions and deposit funds. Funds held for others also include amounts held in suspense accounts awaiting disposition or reclassification. The individual details for each of these accounts reside in the asset accounts. The balances in these accounts must be supported by schedules of voucher deductions, collections, and transfers between accounts.
- e. **Suspense Accounts.** Suspense accounts include credits arising in the course of operations that cannot be analyzed readily and credited to the proper account because of inadequate information, uniqueness of the transaction, or similar complications. Temporarily credit such items to the suspense account to avoid undue delays of monthly closing. Determine the proper account for all suspense items and credit them accordingly as soon as possible. At the end of the fiscal year, all suspense items must be analyzed and cleared to the proper accounts; nothing should be deferred at yearend.
- f. **Debt Issued Under Borrowing Authority.**
 - (1) DOE occasionally receives appropriations that provide programs with authority to borrow funds. Borrowing authority is limited by the amounts specified in the appropriation acts. Funds that are borrowed to finance appropriated obligational authority must be repaid into the General Fund of the Department of the Treasury. Interest shall be charged from the date the funds are credited to the appropriation until the date of repayment.
 - (2) Power marketing administration legislation requires recoupment of appropriated funds over a specified time period and rate of interest. Power marketing administrations shall record the investment of the U.S. Government in power facilities as Proprietary Capital, Federal Investment, or Federal Appropriations.

Interest expense or interest charged to construction shall be computed and repaid to the Department of the Treasury.

g. Contingent Liabilities.

- (1) General.** Contingent liabilities are potential liabilities that might become actual if certain future events, beyond the Government's control, result in losses or impairments of assets or incurrences of liabilities.

 - (a)** When a loss contingency exists, the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.

 1. *Probable.* The future event or events are likely to occur.
 2. *Reasonably Possible.* The chances of the future event or events occurring are more than remote but less than likely.
 3. *Remote.* The chances of the future event or events occurring are slight.
 - (b)** Accrual and disclosure of contingencies vary, depending on probability of occurrence. Losses that are deemed probable and can be reasonably estimated will be accrued as a fund liability, unless approved by the Office of Chief Financial Officer (CR-1) as a nonfund liability requiring future funding. With regard to legal claims, adjudicated claims against the Department must be funded and recorded as funded liabilities. Claims that meet the criteria for accrual but have not been adjudicated will be accrued as nonfund liabilities requiring future funding. As previously indicated, the use of this nonfund entry requires prior approval. Disclosure of the nature of an accrual is necessary if the financial statements would be misleading without such disclosure. If the contingency is not deemed probable or cannot be estimated, a footnote disclosure should be made on the financial statements giving the circumstances of the contingency. Minimum disclosure includes a statement of the nature of the contingency and an estimate of the possible loss, a statement of the range of the possible loss, or a statement that such an estimate cannot be made.
- (2) Loan Guarantees and Commitments.** Loan guarantees are agreements by which DOE pledges to pay part or all of the loan principal and interest to lenders or holders of securities in the event of default by third-party borrowers. For additional information on the DOE Loan Guarantee Program, see DOE 5700.5A, Policy and Management Procedures for Financial Incentives Programs.

 - (a)** Accrue estimated losses resulting from loan guarantees and commitments when funds are obligated and if information available indicates that it is probable that assets have been impaired or liabilities have been incurred as of the date of the financial statements and that the amounts can be reasonably estimated.
 - (b)** Disclose the total exposure of all loan guarantees and loan commitments in footnotes to financial statements. This disclosure shall include the amount

and nature of the loan guarantees and loan commitments, the periods of such guarantees and loan commitments, any collateral provisions, and any other information necessary to understand the magnitude and character of the Government's guarantees and commitments.

- (c) Report loan guarantees and loan commitments whether they are funded or not. The footnotes to the financial statements shall disclose whether funds have been obligated. The liability reported for pre-1992 loan guarantees should be based on the amount of known and estimated losses; however, the liability reported for post-1991 loan guarantees should be based on the present value of the estimated net cashflows to be paid by the Department as a result of the loan guarantees.

- (3) **Tort Claims.** Tort claims are contingent liabilities and are disclosed in the financial statements, as discussed in paragraph 2g(1). Tort claims are claims against the United States for injury to or loss of property or personal injury or death caused by the negligent or wrongful act or omission of any employee of DOE while acting within the scope of office or employment. Refer to paragraph 2g(1)(b) for recognition of claim contingencies.

h. Leases.

- (1) A capital lease shall be treated as the acquisition of an asset and the incurrence of a liability. All lease-purchase or capital leases are required to have up-front budget authority for the full liability of the lease. With operating leases, up-front budget authority must be available to cover the maximum amount of the Government's liability.
- (2) The maximum amount of the Government's liability for an operating lease is the full amount of the operating lease unless the lease includes a cancellation clause. In this case, the maximum liability is the amount of the lease payments over the minimum lease period plus any required cancellation payment. For additional information on leases refer to Chapter 5, "Accounting for Obligations," paragraph 4a(7)(d), and Chapter 10, "Plant and Capital Equipment," paragraph 2e.

- i. **Future Funded Liabilities.** Future funded liabilities result from the receipt of goods or services in the current or prior periods—or from the occurrence of eligible events in the current or prior periods—for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the Department. The Department has established specific liability accounts to record future funded liabilities. The use of these accounts is restricted to those liabilities specifically identified in the SGL. Where prior approval is required, requests and supporting documentation should be forwarded to the Office of Financial Policy (see Attachment 11-1). In addition, specific guidance for recognition of liabilities related to the requirements of Financial Accounting Standards Board (FASB) Statement No. 87, "Employers' Accounting for Pensions," and FASB Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," will be issued by the Office of CFO in annual information requests.

- j. **Other Liabilities.** Any other liability that has not been defined elsewhere should be disclosed in the financial statements. The principle of materiality and full disclosure should govern the inclusion of such liabilities. The nature of the liability should be identified and reported, either by a footnote to the financial statement or by actual inclusion of an amount in a liability account if the potential amount due or a loss can be estimated.

ATTACHMENT 11-1

**REQUEST FOR USE OF BSC 3999, UNFUNDED LIABILITIES—
OTHER LIABILITIES REQUIRING FUTURE FUNDING**

REQUEST FOR USE OF BSC 3999, UNFUNDED LIABILITIES— OTHER LIABILITIES REQUIRING FUTURE FUNDING	
Requesting office:	_____
Contact/phone #:	_____
Date of request:	_____
Field office chief financial officer:	_____ Signature/date
Cognizant program officer:	_____ Signature/date
Description of liability: 	
Amount to be recorded: \$ _____ Budget & Reporting #: _____ Check one: New request _____ Increase _____ Decrease _____ Fiscal year payment is expected to be made: _____	
Approvals: <div style="text-align: center; margin: 10px 0;"> _____ Director Office of Financial Policy </div> <div style="display: flex; justify-content: space-around; margin: 10px 0;"> Approved/date: Yes _____ No _____ </div> <div style="text-align: center; margin: 10px 0;"> _____ Director Office of Financial Control and Reporting </div> <div style="display: flex; justify-content: space-around; margin: 10px 0;"> Approved/date: Yes _____ No _____ </div>	
cc: Office of Budget	